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2025 BUDGET BRIEFING NOTE

Contributions to and Withdrawals from Reserves/Reserve Funds

Issue/Background:

This briefing note consolidates the information from individual Division/Agency Budget Notes regarding the budgeted and planned contributions (inflows) to, and withdrawals (outflows) from, program-specific and corporate reserves and reserve funds (collectively referred to as reserves in this document).

Key Points:

- Reserves and Reserve Funds are set aside to help offset future capital needs, obligations, fiscal pressures, unforeseen costs or revenue shortfalls.
- Deferred Revenues are funds designated for specific purposes under Provincial legislation or third-party agreements, creating future obligations for the City.
- Most of the City's reserves and deferred revenues are restricted or committed by:
 - Legislative or third-party agreements
 - Council-directed activities
 - Funding for expenses approved through the City's annual budget process.
- Sources of Reserves Contributions include:
 - Budgeted contributions within Operating Budgets;
 - Dedicated capital levies;
 - Funding secured by legislation or contracts;
 - Grants and transfers from the provincial and federal government;
 - General revenues;
 - Year-end operating surpluses; and
 - Third-party agreements.

Reserves and Deferred Revenue Status as of September 30, 2024:

- The combined balance of Reserves, Reserve Funds and Deferred Revenues is \$13.5 billion (including a reserve balance of \$5.9 billion and deferred revenues of \$7.6 billion), with \$13.3 billion (98.4%) either fully committed or over committed for future Council-directed activities.
 - The remaining balance of \$210.4 million is uncommitted and retained for emergency purposes such as extreme weather events.
- Approximately \$39.1 billion is committed to future Council-directed activities, including capital and operating expenditures and rate-based activities, far exceeding the existing reserves balances.
 - These commitments are projected to be roughly three times the projected reserve and deferred revenue balance at the end of 2024, **requiring continued annual contributions to support planned expenditures.**

City-wide Reserve / Reserve Funds and Deferred Revenues Inflows / Outflows:

The City uses reserves to fund both operating and capital expenditures. Table 1 below details the combined net impact of inflows and outflows of City reserves, showing growth or depletion over time.

Table 1: Historical Reserves/Reserve Fund & Deferred Revenue Changes

Description (\$ in millions)	2020	2021	2022	2023	2024*
Budgeted Net Inflow/(Outflow):					
Operating Reserves	23	(52)	(97)	(109)	(461)
Capital Reserves	(330)	(295)	(463)	(170)	(179)
Budgeted Net Inflow/(Outflow)	(307)	(347)	(560)	(279)	(640)
Opening Balance	6,059	7,585	9,013	11,056	11,593
Actual Net Inflow/(Outflow)	1,526	1,428	2,043	537	265
Actual Ending Balance**	7,585	9,013	11,056	11,593	11,858

*Note: 2024 actual ending balance is a projection and is reflected as the total of all opening balances for all reserves listed in *Appendix 1 - Reserves and Reserve Funds Balance Forecast*.

#Variances between budget and actuals from 2020–2024 were driven by greater-than-expected funding program contributions, additional reserve contributions during the COVID-19 period to prepare for future challenges, and higher-than-anticipated development charge (DC) revenues.

As shown in Table 1, the 2024 Budget anticipated a net outflow. The actual results reflect a marginal inflow, resulting from prioritizing capital spending and minimizing reliance on reserve funds as a budget bridging strategy.

- The actual net inflow/outflow for 2024 will be made available in the 2024 Year-End Reserves and Deferred Revenue Balance Reports, to be released in mid-2025.

Table 2 below provides the consolidated view of city-wide withdrawals and contributions to the City's operating and capital reserves, as reflected in the Staff Prepared 2025 Operating Budget and 2025-2034 Capital Budget and Plan. The table also provides estimated combined year-end closing balances for reserves over the next three years.

Table 2: Reserve/Reserve Fund & Deferred Revenues Three-Year Forecast

Reserve/ Reserve Funds Impacted by the 2025 Budget (\$ in millions)	Projected Balance as of December 31, 2024	2025			Estimated Year-End Balance		
		Outflow	Inflow	Net	2025	2026	2027
Operating	1,887	(1,009)	490	(519)	1,367	1,269	1,217
Capital	9,972	(2,907)	2,955	48	10,020	9,195	8,435
Reserves/Reserve Funds Total	11,858	(3,916)	3,445	(471)	11,387	10,464	9,652

The estimated year-end balances over the next three years are based on 2025 budgeted and future year planned annual withdrawals and contributions.

- Reserves are reviewed annually and strategies are employed to reduce withdrawals or increase contributions to maintain healthy reserve balances.
- Forecasts provide information on the projected health of the reserves and can signal the need for corrective action.

The Staff Prepared 2025 Operating Budget includes \$1.009 billion in budgeted withdrawals compared to \$0.490 billion in budgeted contributions to operating reserves, reflecting a net outflow of \$0.519 billion. This includes one-time actions intended as a bridging strategy, expected to be reversed and replaced with sustainable funding as part of the multi-year budget approach first adopted as part of the 2024 budget.

The Staff Prepared 2025-2034 Capital Budget and Plan includes \$2.907 billion in budgeted withdrawals compared to \$2.955 billion in budgeted contributions to capital reserves, reflecting a net inflow of \$0.048 billion.

Development Charge (DC) reserves are a component of the City's overall reserve balance. These reserves are impacted by [Bill 23](#), reducing the amount of DC revenue received over the next ten years, limiting funding for growth-related infrastructure.

The 2025-2034 Capital Budget and Plan accounts for reductions due to Bill 23. Without reimbursement and applying DC funding towards all eligible projects including those not yet reflected in the Capital Plan, DC reserves, will experience negative balances affecting the City's ability to advance growth-related capital investments.

Table 3 below outlines the impacts on the City's various DC reserves, considering:

- Anticipated impacts of Bill 23
- The impacts without full reimbursement from the provincial government
- Capital investments included in the 2025-2034 Capital Budget and Plan, and ***DC-eligible capital projects not yet reflected*** in the City's 10-Year Capital Plan.

Table 3: Projected 10-year Development Charge Reserve Balances

\$ in Millions	Projected Year-End Reserve Balance (Including Unfunded Capital Projects)									
DC Reserve Funds	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	2,877	2,408	1,737	1,215	869	600	453	59	(653)	(1,210)

* Note: Negative values (in parentheses) represent a shortfall in funding, indicating potential challenges to maintaining the health of the reserve for future growth-related projects.

Reserves and Reserve Fund Adequacy

The City has adopted two financial principles related to Reserves and Reserve Funds as outlined by City Council.

1. Reserves and Reserve Funds should be used for:
 - Anticipated liabilities
 - Aligning cash flow estimates with revenues and expenditures subject to cyclical functions
 - Extraordinary large purchases
 - Self-financing of ongoing activities for specific services
 - Acting as an endowment
2. Reserves and Reserve Funds should be funded to the level required for their purpose.

There are 262 active reserves, detailed in Appendix 1. Of these, six are forecasted to experience a negative closing balance within the three-year outlook, which will need to be addressed.

Financial Planning, in conjunction with Accounting Services, continues to monitor and report on the health of the City's reserves throughout the year.

- As needed, budget adjustments will be brought forward for Council consideration to address reserve adequacy concerns.
- For the reserves with anticipated third-party funding, expenditures will be reduced to match available funding if third-party funding is not secured.

Budgeted contributions and withdrawals for each reserve are detailed in Appendix 1 of this briefing note and can also be found in Appendix 10 of the Budget Notes for each City Program and Agency.

Appendix:

Appendix 1: Reserves and Reserve Funds Balance and Forecasts

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Date: January 23, 2025